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**Report On Controls Placed In Operation  
and Tests of Operating Effectiveness  
for the Treasury Bureau of the Public Debt  
Trust Fund Management Branch  
for the Period  
October 1, 2001 to September 30, 2002**

OIG-03-030

December 6, 2002



**Office of Inspector General**

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**The Department of the Treasury**



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

December 6, 2002

OFFICE OF  
INSPECTOR GENERAL

MEMORANDUM FOR VAN ZECK, COMMISSIONER  
BUREAU OF THE PUBLIC DEBT

FROM:

William H. Pugh, *William H. Pugh*  
Deputy Assistant Inspector General  
for Financial Management and Information  
Technology Audits

SUBJECT:

Report on Controls Placed in Operation and Tests  
of Operating Effectiveness for the Treasury Bureau  
of the Public Debt Trust Fund Management Branch  
for the Period October 1, 2001 to  
September 30, 2002

I am pleased to transmit the attached Report on Controls Placed in Operation and Tests of Operating Effectiveness for the Treasury Bureau of the Public Debt Trust Fund Management Branch for the Period October 1, 2001 to September 30, 2002. We contracted with KPMG LLP, an Independent Public Accountant (IPA), to review the Bureau of the Public Debt (BPD) transactions processing related to the investment accounts of various Federal and State Government agencies (Program Entities). These accounts were maintained by the BPD's Trust Fund Management Branch. The IPA performed the examination in accordance with the American Institute of Certified Public Accountants' Statement on Auditing Standards Number 70, *Reports on the Processing of Transactions by Service Organizations*, as amended, and generally accepted government auditing standards. The following IPA reports are incorporated in the attachment:

- Independent Service Auditors' Report; and
- Independent Auditors' Report on Compliance with Laws and Regulations.

The IPA concluded that the *Description of Controls Provided by the Bureau of the Public Debt* (included in the attachment) presents fairly, in all material respects, the relevant aspects of BPD's controls that had been placed in operation as of September 30, 2002. The IPA also concluded that these controls

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are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily and the Program Entities applied the controls contemplated in the design of BPD's controls. In addition, the IPA's Report on Compliance with Laws and Regulations disclosed no instances of noncompliance.

My staff's review of the IPA's working papers determined that the work was performed in accordance with generally accepted government auditing standards. Should you have any questions, please contact me at (202) 927-5430, or a member of your staff may contact Louis C. King, Director, Financial Audits at (202) 927-5774.

Attachment

**U.S. DEPARTMENT OF THE TREASURY  
BUREAU OF THE PUBLIC DEBT**

**Report on Controls Placed in Operation and  
Tests of Operating Effectiveness**

**GENERAL COMPUTER AND TRUST FUND MANAGEMENT  
PROCESSING CONTROLS  
RELATED TO THE TRUST FUND MANAGEMENT BRANCH**

**For the Period October 1, 2001 to September 30, 2002**

U.S. DEPARTMENT OF THE TREASURY  
BUREAU OF THE PUBLIC DEBT

Report on Controls Placed in Operation and  
Tests of Operating Effectiveness

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**I. INDEPENDENT SERVICE AUDITORS' REPORT PROVIDED BY KPMG LLP**



2001 M Street, NW  
Washington, DC 20036

Inspector General, U.S. Department of the Treasury  
Commissioner, Bureau of the Public Debt and the  
Assistant Commissioner, Office of Public Debt Accounting:

We have examined the accompanying description of the general computer and trust fund management processing controls related to the Trust Fund Management Branch (TFMB) of the Bureau of the Public Debt (BPD). Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of BPD's controls that may be relevant to the Program Agencies' and States' (the Program Entities) internal control as it relates to an audit of financial statements, (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily, and the Program Entities applied the controls contemplated in the design of BPD's controls, and (3) such controls had been placed in operation as of September 30, 2002. The control objectives were specified by BPD. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants, and applicable *Government Auditing Standards*, issued by the Comptroller General of the United States, and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

In our opinion, the accompanying description presents fairly, in all material respects, the relevant aspects of BPD's controls that had been placed in operation as of September 30, 2002. Also, in our opinion, the controls, as described, are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily and the Program Entities applied the controls contemplated in the design of BPD's controls.

In addition to the procedures we considered necessary to render our opinion as expressed in the previous paragraph, we applied tests to specified controls, included in Section III of this report, to obtain evidence about their effectiveness in meeting the control objectives, described in Section III, during the period from October 1, 2001, to September 30, 2002. The specific controls and the nature, timing, extent, and results of the tests are listed in Section III. This information is being provided to Program Entities and their auditors to be taken into consideration, along with information about internal controls at the Program Entities, when making assessments of control risk for the Program Entities.

In our opinion the controls that were tested, as described in Section III of this report, were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectives specified in Section III were achieved during the period from October 1, 2001, to September 30, 2002.

The relative effectiveness and significance of specific controls at BPD and their effect on assessments of control risk at the Program Entities are dependent on their interaction with the controls and other factors present at individual Program Entities. We have performed no procedures to evaluate the effectiveness of controls at individual Program Entities.







The description of controls related to the TFMB of BPD is as of September 30, 2002, and information about tests of the operating effectiveness of specified controls covers the period from October 1, 2001 to September 30, 2002. Any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the controls in existence. The potential effectiveness of specified controls is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that (1) changes made to the system or controls, (2) changes in processing requirements, or (3) changes required because of the passage of time may alter the validity of such conclusions.

The information in Section IV is presented by BPD to provide additional information and is not a part of BPD's description of controls that may be relevant to the program entities' internal control. The information in Section IV has not been subjected to the procedures applied in the examination of the description of the controls and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management of BPD, Program Entities and their independent auditors, U.S. Department of the Treasury Office of Inspector General, Office of Management and Budget, General Accounting Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 1, 2002

**II. DESCRIPTION OF CONTROLS PROVIDED BY THE  
BUREAU OF THE PUBLIC DEBT**

## OVERVIEW OF OPERATIONS

### Summary

Treasury Directive 27-02, Organization and Functions of the Fiscal Services, dated May 23, 1997, established the Bureau of the Public Debt's (BPD) responsibility to invest, approve schedules for withdrawals, and maintain accounts for the Federal Trust and Deposit Programs as directed by statute, and certify interest rates determined by the Secretary of the Treasury.

BPD has assigned these responsibilities to the Division of Federal Investments (DFI), with the exception of interest certification, which is assigned to the Debt Accounting Branch. DFI manages two functional areas: Trust Fund Management Branch (TFMB) and Federal Investment Branch (FIB). TFMB is the service organization responsible for processing certain receipt, investment, investment servicing, disbursement, and redemption transactions for eighteen trust funds. In addition, TFMB reports the results of the transactions processed to the Financial Management Service (FMS) and the Program Agencies and States (Program Entities) whose programs are funded by the trust funds. TFMB employs ten personnel and reports on nearly \$1.4 trillion of trust fund assets. TFMB more specifically:

- Analyzes provisions and limitations of public laws relating to authorized trust fund transactions
- Processes receipt, investment, investment income, and disbursement activity
- Establishes and controls the record keeping of the trust fund activity processed by BPD
- Provides monthly reports to Program Entities reflecting trust fund activities and balances

Transaction support is maintained in paper and electronic format. The supporting documentation is maintained in monthly work folders that include at least the following key documents:

- Receipt notification documents, such as Office of Tax Analysis (OTA) tax estimate /adjustment letters, Internal Revenue Service (IRS) tax refund/credit letters, Program Entity receipt letters/reports, Schedule of Withdrawals and Transfers (SF-1081), Deposit Summary Form (SF-215), and CASHLINK reports
- Intragovernmental Payment and Collection System (IPAC) transaction reports
- Statement of Transactions Report (SF-224)
- FMS-issued warrants (SF-1017)
- Investment and Redemption Requests
- FIB-issued Investment and Redemption Confirmations
- FIB-issued Monthly Statements of Account (investment report)
- Overnight rate sheet from Federal Reserve Bank of New York
- Treasury memorandums on the end-of-month average market yield interest rates
- Disbursement request letters from Program Entities
- Non-Expenditure Transfer Authorization (SF-1151)
- FMS-Issued Transaction by Account ID reports
- ASAP disbursement and transfer request files and reports
- Reconciliations from the TFS-6653 Undisbursed Appropriation Account Ledgers to the trust fund trial balance reports
- Trial balance reports
- Schedules of assets and liabilities and schedules of activity
- Federal Accounting Centralized Trial Balance System Adjusted Trial Balance Reports
- TFS-2108 Year-End Closing Statements

TFMB processes receipt transactions based on warrants provided by FMS or amounts received from Program Entities and other organizations using the IPAC or CASHLINK systems. The OTA and IRS are responsible for determining the amount of tax receipts. The Program Entities and other organizations are responsible for determining the amount of the non-tax receipts.

TFMB invests the receipts in Treasury securities. TFMB summarizes the daily receipts and sends an Investment Request form to FIB, which purchases the requested security and posts an Investment Confirmation on Treasury's website. TFMB primarily purchases non-marketable Treasury securities that are held in the name of the Secretary of the Treasury for the trust funds, such as:

Non-marketable, market-based securities

- Bills
- Bonds
- Notes
- One-day securities

Non-marketable par value securities

- Special issue bonds
- Certificates of indebtedness

The interest on securities held for the trust funds are credited to the trust funds in accordance with legislation. FIB assigns interest rates for the securities issued to the trust funds. The interest rate for a non-marketable par value security is based on specific legislation or the average monthly rate of all outstanding Treasury debt instruments. The interest rate for a non-marketable market-based security is based on the daily rate established by the Office of Market Finance within the Department of the Treasury (Treasury) for an equivalent marketable security.

FIB issues non-marketable market based bills, bonds, and notes at a discount or premium. TFMB amortizes the discounts for bills (i.e. short-term securities) using the straight-line method and the discounts and premiums for bonds and notes (i.e. long-term securities) using the level yield method which approximates the effective interest method.

Interest income is a receipt to the trust fund and is either used to meet Program Entity disbursement requests or is reinvested according to the trust funds' investment policy. Interest income is recorded as either received or accrued each month by the trust fund managers. Also if a gain or loss is sustained when a security is redeemed prior to maturity to meet the cash needs of a Program Entity, the related gain or loss is also recorded.

The Program Entities that are authorized to use trust fund assets as program resources request disbursements from TFMB. TFMB sends an Investment/Redemption Request form to FIB, which redeems the requested amount of securities and posts a Redemption Confirmation on Treasury's website. TFMB sends FMS a SF-1151 Non-expenditure Transfer Authorization to transfer the requested funds to the Program Entities. The Program Entities have responsibility for the ultimate disposition of the trust fund assets.

The receipt, investment, investment income, and disbursement activity provide the basis for reporting financial information to the Program Entities that use the trust fund resources, as well as other interested parties such as the Office of Management and Budget (OMB) and Treasury offices. TFMB provides monthly financial reports including the activity and balances to the Program Entities.

### Invest One Accounting System Description

The Invest One accounting system is a vendor supplied accounting package used to record and report trust fund activity processed by TFMB. Invest One is licensed by SunGard Investment Systems, Inc. Invest One resides on BPD's mainframe, which uses an OS/390 operating platform. OIT provides the primary support for maintaining the Invest One accounting system. This includes mainframe operations (batch processing and reporting), custom report writing, application change management, data management, tape backup and recovery, user access security, remote access and continuity management. Invest One is accessed through the network using an application called Extra, a PC based software product that enables communication with OIT mainframe applications. Invest One also provides a report writer package called SPECTRA, that provides users with the ability to create their own reports. BPD uses SPECTRA to create reports, which provide functionality not included in the standard Invest One reports.

The trust fund managers receive supporting documentation on a daily basis for recording trust fund activity. The trust fund managers record the activity as the supporting documentation is received into the Invest One accounting system. This process provides the trust fund managers with information on daily cash balances that helps them ensure that the activity was processed and invested correctly. Invest One provides monthly trial balance reports and financial reports.

## RELEVANT ASPECTS OF THE CONTROL ENVIRONMENT

### Control Environment

Operations are primarily under the direction of the Office of the Director of the Division of Federal Investments. The Division of Federal Investments (DFI), as depicted in the organization chart at Exhibit A, supports the functional areas listed below:

- *Administrative development.* Coordinates various aspects of the operations. Identifies areas requiring internal controls and implements those controls. Performs systems planning, development, and implementation. Reviews network operations and telecommunications and performs disaster-recovery planning and database administration.
- *Program support.* Supports Program Entities in all aspects of their use of the application system including research and resolution of identified problems.
- *Operations.* Manages daily computer operations, production processing, report production and distribution, and system utilization and capacity.

The DFI holds weekly management meetings to discuss special processing requests, operational performance, and the development and maintenance of projects in process. Written position descriptions for employees are maintained. The descriptions are inspected annually and revised as necessary.

References are sought and background, credit, and security checks are conducted for all BPD personnel when they are hired. Additional background, credit, and security checks are performed every three to five years. The confidentiality of user-organization information is stressed during the new employee orientation program and is emphasized in the personnel manual issued to each employee. BPD provides a mandatory orientation program to all full time employees and encourages employees to attend other formal outside training.

All BPD employees receive an annual written performance evaluation and salary review. These reviews are based on goals and objectives that are established and reviewed during meetings between the employee and the employee's supervisor. Completed appraisals are reviewed by senior management and become a permanent part of the employee's personnel file.

### Risk Assessment

BPD has placed into operation a risk assessment process to identify and manage risks that could affect TFMB's ability to provide reliable transaction processing for Program Entities. This process requires management to identify significant risks in their areas of responsibility and to implement appropriate measures and controls to manage these risks.

### Communication

BPD has implemented various methods of communication to ensure that all employees understand their individual roles and responsibilities over transaction processing and controls. These methods include orientation and training programs for newly hired employees, and use of electronic mail messages to communicate time sensitive messages and information. Managers also hold periodic staff meetings as appropriate. Every employee has a written position description that includes the responsibility to communicate significant issues and exceptions to an appropriate higher level within the organization in a timely manner.

### Monitoring

BPD management and supervisory personnel monitor the quality of internal control performance as a normal part of their activities. Management and supervisory personnel inquire and ensure the trust fund managers process transactions and perform internal controls. In addition, management reviews financial reports that summarize the trust fund transaction-processing. One key control is that each month the trust fund managers reconcile the trial balance reports from the Invest One accounting system to the FMS generated Undisbursed Appropriation Account Ledgers (TFS-6653). In addition, TFMB prepares and reconciles the FACTS II submission reports to the trial balance reports each quarter.

## PROGRAM ENTITIES' CONTROL CONSIDERATIONS

BPD's general computer controls and trust fund management processing controls related to TFMB were designed with the expectation that certain internal controls would be implemented by the Program Entities. The application of such controls by the Program Entities is necessary to achieve all control objectives identified in this report, since TFMB is a servicing organization that processes transactions that directly affect the Program Entities. There may be additional objectives and related controls that would be appropriate for the processing of trust fund transactions that are not identified in this report.

This section describes certain controls that Program Entities should consider for achievement of control objectives identified in this report. The Program Entities' control considerations presented below should not be regarded as a comprehensive list of all controls that should be employed by Program Entities. Program Entities should perform the following controls:

- Ensure that only authorized receipts are deposited into the trust funds.
- Ensure the amounts of the receipts are properly determined.
- Ensure that receipt information is provided to TFMB within required time frames.
- Review the monthly financial reports provided by TFMB to ensure that receipts are posted accurately.
- Verify that the type and term of the investments purchased are appropriate in relation to expected cash flow needs.
- Review investments purchased to ensure they will meet the Program Entities' investment income goals.
- Ensure that only authorized disbursement requests are used for withdrawals from the trust funds.
- Ensure the amount of the disbursement request is properly determined.
- Ensure that disbursement requests are submitted to TFMB within the required time frame.
- Ensure that the systems they use to support on-line access to the Automated Standard Application for Payments System (ASAP) are approved, tested, and properly monitored.
- Ensure that access to the ASAP system is restricted to properly authorized individuals.
- Ensure that disbursement requests are accurately entered into the ASAP system.
- Review the monthly trust fund financial reports provided by TFMB to ensure that disbursements are posted accurately.



- Reconcile fund balance with Treasury from their records to FMS' records to ensure that they receive the proper trust fund disbursements.
- Reconcile their records to their bank's records to ensure that they receive the proper trust fund disbursements.
- Review the monthly trust fund financial reports to ensure that transactions are recorded accurately.
- Review their UTF account statements, transaction statements, and Federal activity reports to ensure that transactions are recorded accurately.
- Ensure that transactions are recorded accurately into Federal Agencies' Centralized Trial Balance System (FACTS).
- Ensure that borrowing requests are accurately entered into the ASAP system.
- Review the reports provided by TFMB to ensure that borrowing, interest, and repayment transactions are recorded accurately.

Specific user control considerations are provided for Control Objectives 9, 10, 11, 13, 15, and 16 in the Control Objectives, Related Controls and Tests of Operating Effectiveness section of this report.

### **III. INFORMATION PROVIDED BY KPMG LLP**

## OBJECTIVES OF THE REVIEW

This report on controls placed in operation and tests of operating effectiveness is intended to provide interested parties with information sufficient to obtain an understanding of those aspects of BPD's controls that may be relevant to the Program Entities' controls and reduce the assessed level of control risk below the maximum for certain financial statement assertions. This report, when coupled with an understanding of the controls in place at the Program Entities, is intended to assist in the assessment of the controls surrounding transaction processing.

Our examination was restricted to selected services provided to the Program Entities for the general computer and trust fund management processing controls related to TFMB of BPD and, accordingly, did not extend to procedures in effect at Program Entities. The examination was conducted in accordance with the Statement on Auditing Standards (SAS) No. 70, *Service Organizations*, SAS No. 78 *Consideration of Internal Control in a Financial Statement Audit: An Amendment to SAS No. 55*, SAS No. 88 *Service Organizations and Reporting on Consistency*, and SAS No. 94, *The Effect of Information Technology on the Auditors' Consideration of Internal Control in a Financial Statement Audit*, each issued by the American Institute of Certified Public Accountants. It is each interested party's responsibility to evaluate this information in relation to controls in place at the Program Entities in order to obtain an understanding of the controls and assess control risk. The Program Entities' and BPD's controls must be evaluated together. If effective controls are not in place at the Program Entities, BPD's controls may not compensate for such weaknesses.

Our examination included inquiry of appropriate management, supervisory and staff personnel, inspection of documents and records, observation of activities and operations, and tests of general computer and trust fund management processing controls surrounding TFMB operations. Our examination did not extend to procedures and controls of BPD branches outside of TFMB, OIT, and Federal Investment System Team (FIST) or to IRS, OTA, FMS, Office of Market Finance, Federal Reserve Bank (FRB) of New York, or the Program Entities. In addition, our examination did not include ASAP, CASHLINK, Intragovernmental Payment and Collection System, or Government On-line Accounting Link System (GOALS). Our tests of controls covered the period October 1, 2001, to September 30, 2002 and were applied to those controls relating to control objectives specified by BPD.

The description of controls and control objectives are the responsibility of BPD's management. Our responsibility is to express an opinion as to whether the controls are operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectives, as specified by BPD's management, were achieved during the period covered by our report. Test procedures performed in conjunction with determining the operating effectiveness of controls and control objectives within this report are described on the next page.

<u>Test Procedure</u>	<u>Description</u>
Inspected	Analyzed documents and reports that contained an indication of performance of the control. This includes, among other things, reading of external and internal documents to assess whether balances and reconciling items are properly supported, monitored, controlled and resolved on a timely basis.
Inquired	Interviewed appropriate personnel about the relevant controls.
Observed	Viewed the application of specific controls by appropriate personnel.
Compared	Examined the character and qualities of forms, files, documentation, processes and procedures to discover the resemblance or differences in their values.

## **CONTROL OBJECTIVES, RELATED CONTROLS AND TESTS OF OPERATING EFFECTIVENESS**

### **GENERAL COMPUTER CONTROLS**

#### **System Software**

##### ***Control Objective 1***

Controls should provide reasonable assurance that implementation and changes to system software are authorized, tested, approved, properly implemented, and documented.

##### ***Description of Controls***

Invest One operates within a mainframe environment which consists of the following system software products:

- OS390 Operating System
- Customer Information Control System (CICS)
- ACF2 Security
- Endeavor Change Control
- Tape Management System (TMS)
- Control M and D (Production and Print scheduling)
- ETF/A (Emergency Change Control)
- Applix

Additionally, all PCs are configured with:

- Windows 2000 (sp 1)
- Ethernet card
- Extra (version 6.5) emulation software required to run mainframe applications such as Invest One and
- Source Safe software for posting secure fax confirmations on Treasury's website

These products are under vendor contract for maintenance and support. Upgrades to these products occurred during the year ended September 30, 2002. Each upgrade is managed by the OIT technical group.

For system software changes on the mainframe, BPD uses the Applix product for change management. All system software changes (i.e., new product installations, maintenance upgrades, etc.) require a change record to be opened in Applix. A record can be opened by any system programmer in OIT's Technical Services (System Programming) or the change control coordinator. The record includes a description of the change, implementation date of the change,

a justification, a back-up/back-out plan, and a status for changes that take several weeks/months to implement.

Changes are initially discussed at the “Weekly Change Control Meeting” held every Tuesday morning at 9:30 a.m. Attendees include representatives from all divisions within OIT as well as all users impacted by the proposed change. Depending on the type of change, notification is sent to the assistant commissioner, division directors, branch managers and/or staff personnel.

Following the meeting, the change control coordinator prepares and distributes the “Weekly Change Control Memorandum” on Thursday afternoon with information on changes for the upcoming week. This memorandum describes the system changes, effective dates, reasons for changes or problems the changes will resolve. There is also a reference to the Applix change control number. Each Monday FIST receives and reviews an Applix report of all upcoming changes.

Before changes can be moved to production, they are tested in accordance with BPD’s system software change control procedures. These procedures use two separate operating system environments (Test and Production). The Production environment has three regions; Test, Acceptance, and Production. Each region is a logical environment with its own software, datasets, and libraries. After testing has been performed by programming in the Test environment, it is migrated to the Production Test environment where it is again tested by the programmer. Then it is migrated to the Production Acceptance environment where it is tested using example transactions and “Acceptance” environment files and libraries. After Acceptance testing is complete, the changes are migrated to production.

For emergency changes, BPD has established a process that allows system programmers to have temporary access to production through the use of a “fire-call” ID product called ETF/A. The operating system is configured to monitor and log such activity for review and approval by management the following day.

### ***Tests of Operating Effectiveness and Results of Testing***

- Observed Information Systems Security Representative display Microsoft Windows 2000 and Extra version numbers on each of the PCs and determined that all PCs were running the same versions.
- Inquired of FIST personnel and determined that OIT coordinates and manages the following:
  - Current version of Windows operating system.
  - Current version of Extra emulation software.
- Inspected the BPD’s system software change control procedures and inspected a selection of system software changes and determined the following:
  - Changes were properly communicated, prioritized, and scheduled.
  - Changes were reviewed, approved, and scheduled for implementation into production through the weekly change control meeting.
  - Changes were tested, implemented, and documented.

- Inquired of OIT personnel and determined that the emergency change procedures were complete and current.
- Inspected policies and techniques for use and monitoring of system utilities and determined that they were working as designed.
- Inquired of the FIST team and determined that they receive and review the Applix reports for changes planned that may impact the Invest One mainframe environment.
- Inquired of OIT personnel and determined that all system software is under contract with the vendor for maintenance and support.

Based on the tests of operating effectiveness and results of testing described above, the controls were operating with sufficient effectiveness to achieve this control objective.

### **Vendor Software**

#### ***Control Objective 2***

Controls should provide reasonable assurance that implemented new releases of vendor supplied applications are authorized, tested, approved, properly implemented, and documented.

#### ***Description of Controls***

The Invest One accounting system is licensed by SunGard Investment Systems, Inc. Twice each year the vendor provides a new release of the software that will require comprehensive testing. The software releases will follow standard OIT change control procedures as described in the description of controls in Control Objective number 3. In addition, BPD uses the Endeavor change management software product, to manage the upgrades. The application change control process is under the control and direction of FIST. SunGard Investment Systems, Inc. provides documentation for each release. The Invest One accounting system was upgraded in June 2002.

#### ***Tests of Operating Effectiveness and Results of Testing***

- Inquired of BPD personnel and determined that the Invest One accounting system is under contract with SunGard Investment Systems, Inc. for maintenance and support.
- Inspected vendor documentation and maintenance and support contract and determined that it was complete and current.
- Inquired of FIST and determined they coordinate and manage the new releases of the Invest One accounting system.
- Inspected the Invest One new release procedures and results and determined the new releases were authorized, tested, approved, implemented, and documented.

- Inspected the BPD software change procedures and determined that only authorized personnel can initiate requests.
- Inspected the BPD software change control procedures and determined that they are complete and current.

Based on the tests of operating effectiveness and results of testing described above, the controls are operating with sufficient effectiveness to achieve this control objective.

### **Program Change Control**

#### ***Control Objective 3***

Controls should provide reasonable assurance that changes to customized reports are authorized, tested, approved, properly implemented, and documented.

#### ***Description of Controls***

TFMB has developed customized reports for the Invest One accounting system. Although the Invest One accounting system is supported primarily by OIT, the FIST team also provides support for the design and testing of the customized reports, which are developed (written) by OIT. These customized reports have been created to provide information unavailable in the standard Invest One reporting package. FIST creates the requirements documentation, which is then provided to OIT for development. FIST manages the request, testing, and approval process, described below, using the Endeavor software change management product.

Invest One application reports, developed by SunGard Investment Systems, Inc. are tested via BPD's System Software Change Control procedures. These procedures use two separate operating system environments (Test and Production). Furthermore, the Production environment has three regions; Test, Acceptance, and Production. Each region is a logical environment with its own software, datasets, and libraries. After testing has been performed by programming in the Test environment, it is migrated to the Production Test environment where it is again tested by the programmer. Then it is migrated to the Production Acceptance environment where it is tested using example transactions and the "Acceptance" environment files and libraries. After Acceptance testing is complete, the Invest One application reports are migrated to Production.

For emergency changes to the customized reports developed by OIT or the Invest One application reports, BPD has established a process that allows system programmers or the contractors from SunGard Investment Systems, Inc. to have temporary access to production through the use of a "fire-call" ID product called ETF/A. The operating system is configured to monitor and log such activity for review and approval by management the following day.

TFMB also receives customized reports on a daily basis from "In-House" developed programs created by DFI programmers. These programs are created by members of the FIST team on their individual PCs located in the Hintgen Building and then migrated to a server in the OIT data center. These programs read the data from the Invest One accounting system and create various reports to assist in TFMB's daily processing. Specifically, data is downloaded from Invest One



to a data file located on the servers where the programs execute. Data is not sent from these programs to Invest One.

#### ***Tests of Operating Effectiveness and Results of Testing***

- Inspected user request procedures for report changes and determined that only authorized personnel can initiate requests.
- Inspected the acceptance-testing procedures and determined they were complete and current.
- Inspected Endeavor release procedures and determined they were complete and current.
- Inquired of OIT personnel and determined that emergency change procedures were complete and current.
- Inquired of FIST NT Security Administrators and determined that server controls to run the “In-House” developed programs were restricted to authorized TFMB personnel.
- Inquired of FIST NT Security Administrators and determined that server controls to access and makes changes to the “In-House” developed programs were restricted to authorized FIST personnel.
- Inquired of FIST NT Security Administrators and determined that server controls to the data directories on the server were restricted to authorized personnel only.

Based on the tests of operating effectiveness and results of testing described above, the controls are operating with sufficient effectiveness to achieve this control objective.

#### **Access**

##### ***Control Objective 4***

Controls should provide reasonable assurance that physical access to computer equipment and storage media is restricted to properly authorized individuals.

##### ***Description of Controls***

The Bureau of the Public Debt H.J. Hintgen building is manned by an armed security guard (contracted GCR - Government Control Resources employees) daily from 5:45 am to 8:00 pm. In addition, another security guard is stationed with the armed security guard generally from 7:00 am to 6:00 pm daily. The north entrance to the Bureau of the Public Debt building at 200 Third Street (the main building) is manned by an armed security guard (contracted GCR - Government Control Resources employees) twenty-four hours a day. In addition, the south entrance to the main building is manned by an armed security guard (contracted GCR - Government Control Resources employees) daily from 5:30 am to 8:00 pm. All perimeter doors are monitored by a video camera system that records twenty-four (hour) increments of activity. Tapes are changed each morning when the guard arrives at the Hintgen building. For the Third Street location, tapes

are changed daily for external cameras and every two days for internal cameras. All tapes are logged with the date and time and stored in a locked box for thirty days (30) before being put back into rotation. The video recording machines are serviced and cleaned every six months to ensure recording quality.

Employees can only be granted After/Off hours access to the Hintgen building after a request is made by the Assistant Commissioner from the Office of Public Debt Accounting (OPDA) to the head of BPD security. Keys and alarm codes are issued from the main security office, located at the main building, and recorded on a Record of Keys Issued sheet. Entrants must contact the main security office after disarming the system using a hot-line phone connection at the guard desk. Main security must be notified when leaving and arming the system as well. This follows normal opening and closing procedures.

People entering each building are required to place any materials, packages, bundles, etc. into an EG&G Astrophysics Line Scan 210 for x-ray purposes. Entrants are also required to pass through a Sentries AT Walkthrough Metal Detector.

Identification badges are issued to employees. Employees are required to swipe their badges on a Hersh Electronics Card Reader System (HECRS) that grants access to authorized personnel. The HECRS is connected to security headquarters located in the main office building. Headquarters issues employee badges after security background checks and fingerprinting are complete. Employees are required to have badges available at all times upon request and must bring them to the main entrance if they are escorting a visitor into the building. Employees receive complete security training as new hires directly from security management personnel during initial orientation processes. Copies of access control procedures are available on BPD's website and are posted in each building on the bulletin boards. If an employee forgets his/her identification badge, access to the building is refused. A temporary employee identification badge can be issued after verification is obtained from the security database, the employee signs-in on the Employee Log, and passes through both the x-ray and metal detector devices. Temporary employee identification badges must be returned to the security guard station upon departure on the day of issue. An inventory of temporary employee identification badges is completed at the beginning and end of each guard shift. Terminated employees are required to surrender identification badges and are removed from the database security system immediately.

Visitors are required to sign-in on the Visitor Log, pass through both the x-ray and metal detection devices, are issued a visitor badge, and must be escorted by an authorized employee or contractor. Access is limited to those areas of the building in which the employee or contractor is working. Visitors are required to exit the Hintgen building before the guard leaves at 8:00 pm. An inventory of visitor badges is completed at the beginning and end of each guard shift. Visitors must return the badge when leaving the building for the day. Visitors and contractors who will be working at the site for extended periods are issued a visitor badge with an expiration date after being fingerprinted and receiving security clearance. Visitors are then added to the security database for the designated time period, after which access is terminated. Visitor badges must be returned upon termination of the engagement.

An employee needing access to the data center in the main building must have his/her Branch Manager request access. The forms are contained within an automated system called APPLIX to which only branch managers have access. The branch manager completes the APPLIX request

form which then pulls information from the contact management database and sends the message to the Network Services Branch. The Network Services Branch then reviews and approves, rejects or returns the request. Approved requests are forwarded to the Security Branch for review and approval. If approved, the Security Branch then creates a card-key with access to the authorized data center areas.

Access to the main computer areas and all sensitive areas require the use of the card-key. Card-keys must be used for ingress and egress from each sensitive area. Card-key access limits employees to only those areas within the data center for which they are authorized. This also provides an audit trail that is reviewed by management for access violations and appropriate follow-up.

All employees without a card-key who require entry to the data center are required to sign the Flextime Log recording the time-in, time-out, employee initials, and remarks/approval. This log is maintained at the main entrance to the data center. This is used by management to provide a record of employees visiting the data center. A visitor log, "Computer Room Visitation Register" is also maintained at the main entrance to the data center. This log contains the visitor's name, section, date, time-in, time-out, and visitor badge number.

No outside materials are delivered to the sites without being inventoried and inspected at the BPD warehousing facility. Authorized BPD employees deliver all materials, mail, and packages.

#### *Tests of Operating Effectiveness and Results of Testing*

- Observed guard arrival and departure times and determined coverage was in accordance with stated schedule.
- Observed guard station monitor and determined cameras were operating effectively.
- Inspected videotape storage and determined tapes were maintained for the 30-day period specified.
- Inspected a selection of Off-Hour Records of Keys Issued reports and determined procedures were followed.
- Observed EG&G x-ray, Sentries Metal Detector, and HECRS Card Swipe machines and determined they were working as designed.
- Inspected a selection of identification badges and determined they matched those noted on visitor and employee logs.
- Compared Terminated/Retired employee list against security database and determined inactive employees were removed from the system in a timely manner.
- Inspected access procedural bulletin board postings and determined procedures were posted.

- Inspected doors protected by cypher locks and determined they were working properly.
- Inspected access policies and procedures for the data center and determined they were current and complete, specifically:
  - Physical and logical controls are designed to detect unauthorized access.
  - Access to sensitive/critical areas have been identified and appropriately restricted.
  - Logs are reviewed and violations are investigated.
  - Deposits and removal of tapes and storage media are authorized and logged.

Based on the tests of operating effectiveness and results of testing described above, the controls are operating with sufficient effectiveness to achieve this control objective.

### ***Control Objective 5***

Controls should provide reasonable assurance that logical access to system and application software is restricted to properly authorized individuals.

### ***Description of Controls***

BPD has established guidelines for the preparation of security plans for applications and systems that process Sensitive but Unclassified (SBU) information. All major support systems and general support systems are subject to an internal risk-based review every three years. This review identifies assets and possible threats to these assets, provides a measure of vulnerability of the system to these threats, and confirms control or protective measures are in place. The Invest One accounting system is classified as a major support system.

Access to the Invest One accounting system is controlled by the Invest One software along with mainframe ACF2 security. Access is controlled by user IDs and passwords. TFMB follows OPDA system administration security password guidelines/procedures to establish and maintain passwords. These guidelines require passwords to be at least 8 characters in length, changed every 90 days, and unique for each individual. Passwords are not displayed when entered. ACF2 is also used to appropriately restrict OIT personnel's access to system software, database files, and program libraries.

Access to Invest One accounting system is managed by FIST. Users must complete and submit an Access Request/Revoke Form to FIST before access is granted. Both TFMB management and FIST must authorize the form. FIST has documented granting procedures in the Production Operating Processes (POP) manual. This manual is used to manage Invest One processes.

FIST members provide remote support access to the Invest One accounting system by utilizing a modem and a Secure ID token. The Security Branch logs each dial-in attempt. Once a successful dial-in connection is established, users are authenticated to the mainframe Invest One package by their designated ACF2 user ID and password.

### *Tests of Operating Effectiveness and Results of Testing*

- Observed the performance of system functions and determined that programmer access was appropriately restricted to production data and software.
- Inspected a selection of security and audit logs and determined that activity was logged and inspected and problems were resolved in a timely manner.
- Compared a list of authorized Invest One accounting system users against the current organization chart and determined that based on job-function appropriate access was granted.
- Inspected administration security guidelines/procedures for the Invest One accounting system and determined they were complete and current.
- Inspected access controls for the Invest One accounting system and determined they were operating as described.
- Inspected the user access functions managed by FIST and determined that authorizations are appropriately requested, documented, approved and implemented.
- Observed a selection of FIST personnel log into the Invest One accounting system and determined their access was appropriately restricted to system administration functions only.
- Observed a selection of users log into the Invest One accounting system and determined their access is appropriately restricted to job function.
- Inquired of FIST personnel and determined that ACF2 violations for the Invest One accounting system are received, reviewed and acted upon in a timely manner.
- Observed users menu options for the Invest One accounting system and determined that users did not have access to administrative functions.
- Inspected a selection of user access request forms for the Invest One accounting system and determined that appropriate personnel had approved the access.
- Inspected a selection of user access request forms for the FedInvest system and determined that appropriate personnel had approved the access.
- Inspected procedures and policies associated with mainframe access and determined that:
  - They are documented and current.
  - Access authorizations are appropriately limited.
  - Authorized users are appropriately maintained.
  - Inappropriate or unusual activity is investigated and reported.
  - Passwords, tokens or other devices are used to authenticate users.
  - Logical controls over data files and programs are appropriately designed.

Based on the tests of operating effectiveness and results of testing described above, the controls are operating with sufficient effectiveness to achieve this control objective.

### **Computer Operations**

#### ***Control Objective 6***

Controls should provide reasonable assurance that TFMB computer processes are scheduled appropriately and deviations are identified and resolved.

#### ***Description of Controls***

The Invest One accounting system is an interactive Mainframe system with master data files that are updated when entries are posted. End-of-day processes perform maintenance to the data tables and data backups. Data entry error checking and input screen designs ensure that the data entered by the users is accurate and complete. The error checks include verification of entered data based on predetermined values and ranges. Errors detected by the system are rejected immediately and must be repaired before the transaction is permitted to update the master data tables.

Daily user operations for the Invest One accounting system are posted to provide operators with the information necessary to sequentially complete daily processing. A copy of the TFMB Daily Procedures and a detailed Work Flowchart Diagram is available for reference. The monthly calendar, created in Lotus Notes, is posted at the workstation and highlights daily requirements. System operations require that daily reporting be performed in sequence before transaction processing can begin.

The operations of the Invest One accounting system are controlled through mainframe operating production software called Control M. This allows all programs for batch processing, printing and data backup to be scheduled and performed automatically. Messages are sent by Control M to the OIT and FIST confirming each day's successful completion of scheduled jobs.

#### ***Tests of Operating Effectiveness and Results of Testing***

- Observed the entry of transactions into the Invest One accounting system and determined that error checking features were functioning as designed.
- Inspected the current TFMB Operating Procedures and detailed Work Flowchart and determined they are complete and current.
- Inspected a selection of the Control M messages and determined that jobs were completed as scheduled and reports were produced as expected.
- Observed a selection of transaction entries into the Invest One accounting system and determined that deviations were resolved.

Based on the tests of operating effectiveness and results of testing described above, the controls are operating with sufficient effectiveness to achieve this control objective.

### ***Control Objective 7***

Controls should provide reasonable assurance that network performance monitoring techniques are implemented appropriately.

#### ***Description of Controls***

To access the Invest One application a user must be connected to the BPD Intranet. PCs are configured using Windows 2000 and contain an Ethernet card. Additionally they must run the Extra software which provides terminal emulation to the mainframe CICS environments. The network is a 100 MB Ethernet microwave link and a backup T-1 and is monitored using various software components. These tools monitor percentage of bandwidth utilization, percentage of broadcast traffic, etc., in real-time.

#### ***Tests of Operating Effectiveness and Results of Testing***

- Inquired of OIT and determined that network performance monitoring tools were utilized.

Based on the tests of operating effectiveness and results of testing described above, the controls are operating with sufficient effectiveness to achieve this control objective.

## **TRUST FUND MANAGEMENT PROCESSING CONTROLS**

### **Procedures**

#### ***Control Objective 8***

Controls should provide reasonable assurance that management has defined, documented and communicated procedures associated with all operational areas within TFMB.

#### ***Description of Controls***

The purpose of each trust fund is to hold assets for specific programs directed by the Program Entities, pursuant to specific enabling legislation that created and continues to authorize the operation of each specific trust fund. The Secretary of the Treasury, through the Fiscal Assistant Secretary, is responsible for processing certain trust fund activity and reporting this activity.

TFMB services the trust funds in accordance with established laws, fiscal and other Treasury policies that govern the trust funds. TFMB's responsibilities include establishing accounting records, processing transactions, determining the timing and condition of transactions, maintaining reference files, and recording adjustments. TFMB records transactions based on information provided by FMS, Program Entities, and other organizations.

TFMB has defined and communicated procedures regarding the trust fund operations in Standard Operating Procedures (SOP) manuals. The SOP manuals provide guidelines for processing transactions including receipts, investments, redemptions, investment income, and disbursements. In addition, the SOP manuals provide guidelines for records maintenance and periodic reporting.

Additional reference materials including Federal Government accounting standards; U.S. Standard General Ledger accounting and reporting requirements; and Treasury-wide and BPD-wide accounting and reporting policies are readily available in BPD's library. The SOP manuals are maintained electronically and include electronic links to the additional reference materials listed above.

### ***Tests of Operating Effectiveness and Results of Testing***

- Inspected the SOP manuals and reference materials and determined that they were complete and current.

Based on the tests of operating effectiveness and results of testing described above, the controls are operating with sufficient effectiveness to achieve this control objective.

### **Receipts and Investments**

#### ***Control Objective 9***

Controls should provide reasonable assurance that receipt transactions are authorized, processed and recorded accurately and in the proper period.

#### ***Description of Controls***

##### **All Trust Funds Except the Unemployment Trust Fund**

The trust fund receipts are determined by the OTA, IRS and the Program Entities. The receipts primarily include:

- Excise taxes - Treasury's OTA estimates the monthly excise taxes based on projected excise tax receipts and sends the estimate to FMS. On two specified work days of each month, FMS issues a warrant (SF-1017) to increase the respective trust fund's account, with each warrant containing exactly half of the OTA estimated monthly excise taxes. FMS sends the warrant and excise tax estimate to TFMB. At the end of each calendar quarter, the IRS certifies the excise taxes actually collected and sends the certification to FMS. The IRS generally certifies excise taxes two quarters after the taxes are estimated (i.e., 1<sup>st</sup> quarter estimate is certified in the 3<sup>rd</sup> quarter). FMS calculates the excise tax adjustment as the difference between the excise taxes estimated by OTA and excise taxes certified by the IRS. FMS issues TFMB a warrant for the excise tax adjustment to increase or decrease the respective trust fund's account. The IRS determines the amount of excise tax refunds/credits and sends the adjustment to TFMB to be processed. TFMB sends a SF-224 Statement of Transactions report (SF-224) to FMS and FMS adjusts the trust fund account for the refunds/credits.
- Federal Insurance Contribution Act (FICA) and Self-Employment Contribution Act taxes (SECA) - Amounts equivalent to one hundred percent of FICA and SECA taxes are designated to be transferred to specified trust fund accounts. Treasury's OTA estimates the monthly taxes, determines the amounts to be transferred to the appropriate trust funds, and sends the estimate to FMS. FMS issues a warrant to increase the respective trust fund's account and sends the warrant and the estimate documentation to TFMB. Estimated tax



collections are adjusted in subsequent transfers to the amount of actual tax receipts certified by the IRS and the respective Program Entities.

- Fines, penalties, and cost recoveries - Collected fines, cost recoveries, and penalties are transferred from the collecting agencies directly to the trust funds' accounts. The collecting agencies Fax notification of the receipts to TFMB. The notification is also mailed by the collecting agency to TFMB.
- Civil penalties and damages - Agencies mandated to collect civil penalties and fines for deposit into a specific trust fund send TFMB a letter or a Schedule of Withdrawals and Transfers (SF-1081). These documents list the civil penalties and damages that are collected and the 3% administrative cost to be reimbursed to the trust fund. TFMB prepares a separate request for the collected penalties and damages, and the administrative fees withheld by the Federal agency and sends the request to FMS. FMS issues a warrant to TFMB.
- Military wage service credits - The Department of Defense transfers wage service credits to the trust fund using Treasury's Intragovernmental Payment and Collection System (IPAC) or a SF-1081. TFMB receives the IPAC transaction report from the FMS GOALS system.
- Appropriations - Certain Program Entities receive annual appropriations to fund payments to the trust funds in accordance with legislation. The Program Entities generate a file in the IPAC system to allocate the funds to the proper trust funds. TFMB receives the IPAC transaction report from the FMS GOALS system.
- Collected premiums and Federal matching funds - Amounts withheld from Social Security beneficiary checks and the related Federal matching funds are transferred by the Program Entities to the appropriate trust funds using the IPAC system. TFMB receives the daily receipt reports from the Program Entities and the IPAC transaction report from the FMS GOALS system.

For the receipt documentation discussed above, the trust fund manager reviews the supporting documentation to ensure that the receipts are authorized by legislation, are received from the appropriate Program Entities, and do not contain any obvious errors. TFMB processes receipts received prior to 3:00 pm the day they are received and the next business day if the receipts are received after this deadline.

Using the supporting documentation, the trust fund manager records the receipts into the Invest One accounting system on a daily basis. The trust fund manager prepares an Investment/Redemption Request (IRR) based on the daily activity and provides the receipt supporting documentation and the IRR to the reviewing trust fund manager. The reviewing trust fund manager compares the receipt supporting documentation and the IRR to the Invest One accounting system to ensure the receipt was properly entered and approves the IRR.

## The Unemployment Trust Fund

The primary receipts for the UTF are as follows:

- Federal unemployment taxes - The Federal unemployment taxes fund the Employment Security Administration Account established pursuant to Title IX, section 901(a), of the Social Security Act. This account funds administrative expenses of the UTF and provides intra-fund transfers to the other Federal accounts within the UTF. On a daily basis, the Financial Management Branch of FMS prepares warrants based on collections reported to FMS through CASHLINK. The warrants and CASHLINK reports are forwarded to TFMB.
- Federal Employees Compensation Act (FECA) accounts receivable - Federal agencies make payments on FECA accounts receivable pursuant to Title IX, section 909, of the Social Security Act to fund unemployment benefits for former Federal civilian and military personnel. Federal agencies make payments to the Department of Labor using the IPAC System. The Department of Labor receives IPAC transactions, maintains the FECA accounts receivable, and sends the deposit information on a SF-224 to TFMB.
- State unemployment taxes - TFMB established 53 separate Unemployment Insurance (UI) book accounts for the States, the District of Columbia, Puerto Rico, and the Virgin Islands. Daily, these Program Entities use FEDWIRE to transfer deposits from local banks to the Federal Reserve Bank in New York to the UI book accounts. These deposits are summarized on a SF-215 Deposit Summary form (SF-215) by Riggs National Bank. The Federal Reserve Bank in New York accesses CASHLINK, a Treasury on-line system in which deposit and withdrawal information is maintained at the detail and summary level, and uploads the deposit information into the UTF activity location code. The trust fund manager retrieves the amount of the Program Entity unemployment tax receipts through read-only access to CASHLINK.
- Deposits by the Railroad Retirement Board - Each day TFMB checks for any Railroad Retirement Board receipt reports forwarded from the Railroad Retirement Board to be included in the Railroad Unemployment Insurance and Administration Accounts. TFMB agrees the receipts from the receipt report to the amounts reported by the Railroad Retirement Board on the SF-224.

For the receipt documentation discussed above, the trust fund manager reviews the supporting documentation to ensure that the receipts are authorized by legislation, are received from the appropriate Program Entities, and do not contain any obvious errors.

Using the supporting documentation, the trust fund manager enters the receipts into the Invest One accounting system. The trust fund manager processes receipts received prior to 3:00 pm the day they are received and the next business day if the receipts are received after 3:00 pm.

The trust fund manager prepares an Investment/Redemption Request (IRR) based on the daily activity and provides the receipt supporting documentation and the IRR to the reviewing trust fund manager. The reviewing trust fund manager compares the receipt supporting documentation and the IRR to the Invest One accounting system to ensure the receipt was properly entered and approves the IRR.

### All Trust Funds

Each month the trust fund manager reconciles the trial balances from the Invest One accounting system to the FMS-generated Undisbursed Appropriation Account Ledgers (TFS-6653). The reviewing trust fund manager reviews and approves these monthly reconciliations. Any differences are investigated and resolved.

### ***Program Entities' Control Considerations***

- Program Entities should ensure that only authorized receipts are deposited into the trust funds.
- Program Entities should ensure the amounts of the receipts are properly determined.
- Program Entities should ensure that receipt information is provided to TFMB within required time frames.
- Program Entities should review the monthly financial reports provided by TFMB to ensure that receipts are posted accurately.

### ***Tests of Operating Effectiveness and Results of Testing***

- Observed the trust fund managers and reviewing trust fund managers process and record receipt transactions and determined that they performed procedures in accordance with the SOP manuals.
- Inspected a selection of receipt documentation and determined that the information was properly maintained and reviewed.
- Inspected a selection of the receipt documentation and determined that the receipts were properly authorized.
- Inspected a selection of the receipt documentation and determined that the receipts were processed and posted to the Invest One accounting system accurately and in the proper period.
- Inspected a selection of the monthly reconciliations of the TFS-6653 and the trial balances from the Invest One accounting system and determined that the reconciliations were complete.

Based on the tests of operating effectiveness and results of testing described above, the controls are operating with sufficient effectiveness to achieve this control objective.

## **Investment Requests**

### ***Control Objective 10***

Controls should provide reasonable assurance that investment requests are authorized, processed and recorded accurately and in the proper period.

### ***Description of Controls***

Pursuant to the trust funds' enabling legislation, TFMB invests the portions of the trust funds' assets that are not necessary to meet current withdrawals. In accordance with legislation, TFMB primarily purchases non-marketable Treasury securities that are held in the name of the Secretary of the Treasury for the trust funds. The Treasury securities are purchased and redeemed through FIB. TFMB determines the type and term of the Treasury security to purchase based on the following factors:

- Type of security allowed by legislation
- Division of Federal Investment's guidelines for investing
- Program Entities' expected future cash flow needs
- Discussions with Program Entities
- Guidance issued by the Office of Fiscal Assistant Secretary

During June 2002, TFMB began processing Investment Requests using the FedInvest system maintained by FIB. The Investment Request processing prior to FedInvest and after the implementation of FedInvest is summarized as follows:

<b>Prior to FedInvest</b>	<b>FedInvest</b>
The trust fund manager manually prepares an Investment Request and prints two copies. The trust fund manager reviews and approves the Investment Request and provides the Investment Request along with the source documentation to the reviewing trust fund manager for approval.	To establish access to FedInvest, the trust fund manager completes an Access/Revoke form and provides this form to a supervisor for approval. The supervisor reviews and approves the Access/Revoke Form and submits the form to FIB. Using the approved Access/Revoke Form, FIB establishes a user account and communicates the account information to TFMB. When an employee is terminated, TFMB prepares an Access/Revoke Form and submits an approved form to FIB. FIB removes access for the requested user.
The reviewing trust fund manager compares the Investment Request to the supporting documentation, approves the Investment Request, sends the Investment Request to FIB for processing, and returns the supporting documentation to the trust fund manager. FIB processes the Investment Request on the day received if the request is received by 3:00 pm and on the following business day if received after 3:00 pm.	The trust fund manager prepares an Investment Request. The trust fund manager reviews and approves the Investment Request and provides the Investment Request along with the source documentation to the reviewing trust fund manager for approval.
FIB purchases the requested investment and	

<p>posts a confirmation on Treasury's website. The trust fund manager compares the investment type, amount, purchase date, and maturity date from the Investment Request to the Investment Confirmation. Any differences are investigated and resolved.</p>	<p>The reviewing trust fund manager compares the Investment Request to the supporting documentation and approves the Investment Request.</p> <p>The reviewing trust fund manager accesses the FedInvest system using their user ID and password. The reviewing trust fund manager enters the investment request into FedInvest which purchases the investment and prepares an on-line Investment Confirmation. The reviewing trust fund manager prints the Investment Confirmation and returns the supporting documentation to the trust fund manager.</p> <p>The trust fund manager compares the investment type, amount, purchase date, and maturity date from the Investment Request to the Investment Confirmation. Any differences are investigated and resolved.</p>
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Using the supporting documentation, the trust fund manager records the investment into the Invest One accounting system on a daily basis and files the documentation in the monthly work folder.

The trust fund manager records the investments on the SF-224 using the FIB-provided Investment Confirmations. Each month, the trust fund manager reconciles the month end investment balances from the Invest One accounting system and the SF-224 to the FIB-provided Monthly Statement of Account. The reviewing trust fund manager reviews and approves this monthly reconciliation. Any differences are investigated and resolved.

#### ***Program Entities' Control Considerations***

- Program Entities should verify that the type and term of the investments purchased are appropriate in relation to expected cash flow needs.

#### ***Tests of Operating Effectiveness and Results of Testing***

- Observed the trust fund managers and reviewing trust fund managers process and record investment transactions and determined that they performed procedures in accordance with the SOP manuals.
- Inspected a selection of investment documentation (including the Investment Request and Investment Confirmation) and determined that the information was properly maintained and reviewed.

- Inspected a selection of investment purchases and determined that the investments were authorized in accordance with legislation.
- Inspected a selection of the investment purchase documentation and determined that the investments were processed and posted to the Invest One accounting system accurately and in the proper period.
- Inspected a selection of the monthly reconciliations from the Invest One trial balance and SF-224 to the FIB-provided Monthly Statement of Account and determined that the reconciliations were complete.
- Inspected a selection of user Access/Revoke forms for the FedInvest system and determined that appropriate personnel had approved the access.

Based on the tests of operating effectiveness and results of testing described above, the controls are operating with sufficient effectiveness to achieve this control objective.

### **Investment Income**

#### ***Control Objective 11***

Controls should provide reasonable assurance that investment income; amortization and gains or losses are processed and recorded accurately and in the proper period.

#### ***Description of Controls***

##### **Interest Payments Received**

The trust funds receive interest daily for one-day securities, semi-annually on June 30 and December 31 for par value securities and semi-annually at various dates for market-based bonds and notes. The market-based bills do not make periodic interest payments and therefore interest income is equal to the purchased discount, which is received when the securities mature or are redeemed. Interest received is a receipt to the trust funds and is either used to meet a Program Entities' disbursement request or is reinvested.

At the time an investment purchase is recorded, the trust fund manager enters the investment terms (i.e., cost, discount/premium, interest rate, issue date, maturity date, amortization/accretion method, payment frequency, payment month and day, and first coupon date) into the Invest One accounting system. The Invest One accounting system automatically calculates interest income based on the investment terms in the system. For each redemption transaction, the trust fund manager receives a Redemption Confirmation from FIB with the amount of interest paid. The trust fund manager compares the interest calculated by the Invest One accounting system to the interest paid on the confirmation received from FIB. Any differences are investigated and resolved.

At the end of the month, the trust fund manager records the interest payments on the SF-224 using the trial balance report from the Invest One accounting system. In addition, FIB sends TFMB a Monthly Statement of Account, which indicates the interest payments received for the

month. The trust fund manager reconciles the trial balance report and the SF- 224 report to the FIB-provided Monthly Statement of Account and signs off the SF-224 report. The reviewing trust fund manager reviews the reconciliation and approves the SF-224 report.

#### Accrued Interest Receivable

Accrued interest receivable is recorded by TFMB for accounts that hold notes or bonds. One-day securities mature on the next business day and therefore generally do not accrue interest. If a one-day security is purchased on Friday, the security accrues interest over the weekend since it does not mature until the next business day. Bills are issued at a discount and therefore, do not earn accrued interest, rather their discount is amortized.

At the time an investment purchase is recorded, the trust fund manager enters the investment terms (i.e., cost, discount/premium, interest rate, issue date, maturity date, amortization/accretion method, payment frequency, payment month and day, and first coupon date) into the Invest One accounting system. The system automatically calculates interest accruals based on the investment terms in the system. The trust fund manager and reviewing trust fund manager review the interest balances on the monthly trial balance reports for reasonableness.

#### Discount/Premium

TFMB purchases non-marketable market-based bills at a discount and non-marketable market-based bonds and notes at a discount or premium.

At the time an investment purchase is recorded, the trust fund manager enters the investment terms (i.e., cost, discount/premium, interest rate, issue date, maturity date, amortization method, payment frequency, payment month and day, and first coupon date) into the Invest One accounting system. The system automatically calculates amortization of discount/premium based on the investment terms in the system. The system calculates amortization for bills (i.e., short-term securities) using the straight-line method and for bond/notes (i.e., long-term securities) using the level yield method which approximates the interest method. The trust fund manager and reviewing trust fund manager review the discount/premium balances on the monthly trial balance reports for reasonableness.

#### Gains and Losses

Gains and losses can occur each time a market-based security is redeemed prior to maturity in order to meet a Program Entities' disbursement request. The trust funds invest in a certain amount of one-day securities to help reduce the redemption of securities prior to the maturity dates and thereby, minimize the potential for realized gains or losses. During the fiscal year ended September 30, 2002 only two funds had gains and losses: the Federal Disability Insurance Trust Fund and the Oil Spill Liability Trust Fund.

When a security is redeemed, FIB provides the trust fund manager information on the amount of the redemption proceeds. The trust fund manager enters the amount of the redemption proceeds into the Invest One accounting system. The system calculates and records a gain or loss based on the difference between the redemption proceeds and book value (i.e., cost plus/minus amortized

discount/premium). The trust fund manager and reviewing trust fund manager review the gains/losses on the monthly trial balance reports for reasonableness.

#### ***Program Entities' Control Considerations***

- Program Entities should review investments purchased to ensure they will meet the Program Entities' investment income goals.

#### ***Tests of Operating Effectiveness and Results of Testing***

- Observed the trust fund managers and reviewing trust fund managers process and record interest, amortization, and gain/loss transactions and determined that they performed the procedures in accordance with the SOP manuals.
- Inspected a selection of interest, amortization, and gain/loss documentation and determined that the information was properly maintained and reviewed.
- Inspected a selection of the interest, amortization, and gain/loss documentation and determined that the transactions were mathematically accurate when recomputed in accordance with the SOP manuals.
- Inspected a selection of the interest, amortization, and gain/loss documentation and determined that the transactions were processed and posted to the Invest One accounting system accurately and in the proper period.
- Inspected a selection of the monthly reconciliations from the Invest One trial balance and SF-224 to the FIB-provided Monthly Statement of Account and determined that the reconciliations were complete.

Based on the tests of operating effectiveness and results of testing described above, the controls are operating with sufficient effectiveness to achieve this control objective.

#### **Redemptions and Disbursements**

##### ***Control Objective 12***

Controls should provide reasonable assurance that redemption requests are processed and recorded accurately and in the proper period.

##### ***Description of Controls***

Investments are redeemed primarily when the Program Entities request transfers from the trust funds. For trust funds that invest in market-based securities, the trust fund manager nets the receipts, investment maturities, and the disbursements prior to requesting an investment or redemption transaction. For trusts funds that invest in par value securities, the trust fund manager generally invests receipts and redeems investments for disbursements as separate transactions.



When redeeming a market-based security, the trust fund manager selects the security with the earliest maturity date. When redeeming a par value security, the FIB branch selects the security in the following order: earliest maturity date, lowest prevailing interest rate, and first security in first security out.

During June 2002, TFMB began processing Redemption Requests using the FedInvest system maintained by FIB. The Redemption Request processing prior to FedInvest and after the implementation of FedInvest is summarized as follows:

Prior to FedInvest	FedInvest
<p>The trust fund manager prepares a Redemption Request to cover the amount of funds needed and prints two copies. The trust fund manager reviews and approves the Redemption Request and provides the Redemption Request along with the source documentation to the reviewing trust fund manager for approval.</p> <p>The reviewing trust fund manager compares the Redemption Request to the supporting documentation, approves the Redemption Request, sends the Redemption Request to FIB for processing, and returns the supporting documentation to the trust fund manager. FIB processes the Redemption Request on the day received if the request is received by 3:00 pm and on the following business day if received after 3:00 pm.</p> <p>FIB redeems the investment and posts a Redemption Confirmation on Treasury's website. The trust fund manager compares the Redemption Request to the Redemption Confirmation. Any differences are investigated and resolved.</p>	<p>To establish access to FedInvest, the trust fund manager completes an Access/Revoke form and provides this form to a supervisor for approval. The supervisor reviews and approves the Access/Revoke Form and submits the form to FIB. Using the approved Access/Revoke Form, FIB establishes a user account and communicates the account information to TFMB. When an employee is terminated, TFMB prepares an Access/Revoke Form and submits an approved form to FIB. FIB removes access for the requested user.</p> <p>The trust fund manager prepares a Redemption Request to cover the amount of funds needed. The trust fund manager reviews and approves the Redemption Request and provides the Redemption Request along with the source documentation to the reviewing trust fund manager for approval.</p> <p>The reviewing trust fund manager compares the Redemption Request to the supporting documentation and approves the Redemption Request.</p> <p>The reviewing trust fund manager accesses the FedInvest system using their user ID and password. The reviewing trust fund manager enters the redemption request into FedInvest which redeems the investment and prepares an on-line Redemption Confirmation. The reviewing trust fund manager prints the Redemption Confirmation and returns the supporting documentation to the trust fund manager.</p> <p>The trust fund manager compares the</p>

	investment type, amount, purchase date, and maturity date from the Redemption Request to the Redemption Confirmation. Any differences are investigated and resolved.
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Using the supporting documentation, the trust fund manager records the redemption into the Invest One accounting system on a daily basis and files the documentation in the monthly work folder.

Redemptions also occur when securities mature. Par value securities have a maturity date of June 30<sup>th</sup>. In accordance with Treasury fiscal policy, FIB automatically reinvests the par value securities upon maturity. On the maturity date, FIB posts a Redemption Confirmation and an Investment Confirmation on Treasury's website or FedInvest. The trust fund manager reviews the investment activity and records the redemption and investment activity in the Invest One accounting system.

Market-based securities have various maturity dates. On the maturity date, FIB posts a Redemption Confirmation on Treasury's website or FedInvest. The trust fund manager reviews the Redemption Confirmations, uses the redemption proceeds to meet any open Program Entity disbursement requests, reinvests any proceeds not transferred to a Program Entity, and records the redemption and investment activity into the Invest One accounting system.

The trust fund manager records the redemptions on the SF-224 using the FIB-provided redemption confirmations. Each month, the trust fund manager reconciles the month end investment balances from the Invest One accounting system and the SF-224 to the FIB-provided Monthly Statement of Account. The reviewing trust fund manager reviews and approves this monthly reconciliation. Any differences are investigated and resolved.

#### ***Tests of Operating Effectiveness and Results of Testing***

- Observed the trust fund managers and reviewing trust fund managers process and record redemption transactions and determined that they performed the procedures in accordance with the SOP manuals.
- Inspected a selection of redemption documents and determined that the information was properly maintained and reviewed.
- Inspected a selection of the redemption transactions and determined that the transactions were authorized, processed, and posted to the Invest One accounting system accurately and in the proper period.
- Inspected a selection of the monthly reconciliations from the Invest One trial balance and the SF-224 to the FIB-provided Monthly Statement of Account and determined that the reconciliations were complete.

- Inspected a selection of user Access/Revoke forms for the FedInvest system and determined that appropriate personnel had approved the access.

Based on the tests of operating effectiveness and results of testing described above, the controls are operating with sufficient effectiveness to achieve this control objective.

### **Disbursement Processing**

#### ***Control Objective 13***

Controls should provide reasonable assurance that withdrawals/disbursements are authorized, processed and recorded accurately and in the proper period.

#### ***Description of Controls***

##### **All Trust Funds, Except the Unemployment Trust Fund**

Disbursements primarily consist of transfers to Program Entities, administrative expenses, and interest penalties under the Cash Management Improvement Act. The Program Entities are responsible for verifying that the disbursement is in compliance with legislation, determining the amount of the disbursements, and requesting the disbursement.

The Program Entities make disbursement requests via fax, IPAC reports, email, or telephone calls to the respective trust fund manager. Each telephone request is followed by a faxed disbursement confirmation citing the applicable legislation and signed by the appropriate Program Entity representative. The Program Entity also mails the disbursement confirmation to TFMB.

The trust fund manager processes the disbursement based on the fax, IPAC report, email or telephone request. When the disbursement confirmation is received by fax/mail, the trust fund manager matches the confirmations to the telephone request. The trust fund manager reviews the request to ensure that it is received from the appropriate Program Entity and does not contain any obvious errors. The trust fund manager also reviews the account balance to ensure the trust fund has sufficient funds to cover the request.

TFMB processes disbursement requests received prior to 3:00 pm the day they are received and the next business day if received after this deadline. The trust fund manager records the disbursement request into the Invest One accounting system as noted below, prepares the SF-1151 Non-Expenditure Transfer Authorization (SF-1151), and provides the information to the reviewing trust fund manager. The reviewing trust fund manager compares the SF-1151 to the supporting documentation and certifies the disbursement. After certification, the SF-1151 is sent to FMS for entry into the STAR system. TFMB must send the SF-1151 to FMS no later than 12:00 pm on the seventh business day after the end of the month to meet the month-end-processing deadline.

FMS approves and enters the disbursement into the STAR system and sends the trust fund manager a copy of the SF-1151, which includes a STAR stamp. This stamp indicates that the disbursement was approved and entered into the STAR system and therefore the funds have been transferred. The trust fund manager compares a copy of the original SF-1151 to the SF-1151 with

the STAR stamp prepared by FMS and resolves any differences. If the disbursement contains an error or TFMB makes an error in recording the disbursement, it will be corrected either by preparing a new transfer or adjusting the next transfer request accordingly.

Using the supporting documentation, the trust fund manager records the disbursements into the Invest One accounting system on a daily basis. The trust fund manager prepares an Investment/Redemption Request (IRR) based on the daily activity and provides the disbursement supporting documentation and the IRR to the reviewing trust fund manager. The reviewing trust fund manager compares the disbursement supporting documentation and the IRR to the Invest One accounting system to ensure the disbursement was properly entered and approves the IRR.

#### The Unemployment Trust Fund

The Program Entities are responsible for verifying that the disbursements are in compliance with legislation, determining the amount of the disbursements, and requesting the disbursements. Program Entities must submit all disbursement requests using the ASAP system. Each day, Program Entities must enter their disbursement requests into the ASAP system by 6:00 pm if requesting a wire transfer and by 11:59 pm if requesting an Automated Clearing House payment. The Program Entities may request a disbursement from their account or a transfer from the Extended Unemployment Compensation Account (EUCA) or the Federal Employees Compensation Account (FECA). A written disbursement confirmation is not required from the Program Entities. FMS transfers funds from the trust fund account to the Program Entity account and sends the trust fund manager the Transaction by Account ID reports.

During the morning of the next business day, the ASAP system transmits a file to the Invest One accounting system that contains all of the disbursement and transfer requests. The trust fund manager signs on to the Invest One accounting system and reviews the pending disbursement and transfer requests file. The trust fund manager prints a report from the Invest One accounting system that summarizes the pending disbursement and transfer requests and compares this report to the ASAP transaction reports.

After the trust fund manager verifies and reconciles these reports, the trust fund manager posts the transactions to the Program Entities' accounts within the Invest One accounting system and provides the reports to the reviewing trust fund manager. The reviewing trust fund manager reviews and approves the reports. Any differences are investigated and resolved.

#### All Trust Funds

Each month the trust fund manager reconciles the trial balances from the Invest One accounting system to the TFS-6653. The reviewing trust fund manager reviews and approves these monthly reconciliations. Any differences are investigated and resolved.

#### ***Program Entities' Control Considerations***

- Program Entities should ensure that only authorized disbursement requests are used for withdrawals from the trust funds.

- Program Entities should ensure the amount of the disbursement request is properly determined.
- Program Entities should ensure that disbursement requests are submitted to TFMB within the required time frame.
- Program Entities should ensure that the systems they use to support on-line access to the ASAP are approved, tested, and properly monitored.
- Program Entities should ensure that access to the ASAP system is restricted to properly authorized individuals.
- Program Entities should ensure that disbursement requests are accurately entered into the ASAP system.
- Program Entities should review the monthly trust fund financial reports provided by TFMB to ensure that disbursements are posted accurately.
- Program Entities should reconcile fund balance with Treasury from their records to FMS' records to ensure that they receive the proper trust fund disbursements.
- Program Entities should reconcile their records to their bank's records to ensure that they receive the proper trust fund disbursements.

#### ***Tests of Operating Effectiveness and Results of Testing***

- Observed the trust fund managers and the reviewing trust fund managers process and record disbursement transactions and determined that they performed the procedures in accordance with the SOP manuals.
- Inspected a selection of disbursement documentation and determined that the information was properly maintained and reviewed.
- Inspected a selection of the disbursement documentation and determined that the disbursements were approved, processed, and posted accurately and in the proper period.
- Inspected a selection of ASAP transaction reports and determined that disbursements and transfers were accurately received in the Invest One accounting system.
- Inspected a selection of the monthly reconciliations of the TFS-6653 and trial balances from the Invest One accounting system and determined that the reconciliations were complete.

Based on the tests of operating effectiveness and results of testing described above, the controls are operating with sufficient effectiveness to achieve this control objective.

## **Records Maintenance**

### ***Control Objective 14***

Controls should provide reasonable assurance that documentation exists to support all transactions and is filed in reference files, which are readily available.

### ***Description of Controls***

Transaction support is maintained in paper and, as applicable, electronic format. The supporting documentation is organized in separate monthly work folders for each trust fund. The trust fund manager documents the transaction number assigned by the Invest One accounting system on the supporting documentation to provide a cross-reference. The key transaction records and files are as follows:

- Transaction supporting documentation:
  - Receipt notification documents, such as OTA tax estimate/adjustment letters, IRS tax refund/credit letters, Program Entity receipt letters/reports, Schedule of Withdrawals and Transfers (SF-1081), Deposit Summary Form (SF-215), and CASHLINK reports.
  - Intragovernmental Payment and Collection System (IPAC) transaction reports
  - Statement of Transactions Report (SF-224)
  - FMS-issued warrants (SF-1017)
  - Investment and Redemption Requests
  - FIB-issued Investment and Redemption Confirmations
  - FIB-issued Monthly Statements of Account (investment report)
  - Overnight interest rate sheet from Federal Reserve Bank of New York
  - Treasury memorandums on the end-of-month average market yield interest rates
  - Disbursement request letters from Program Entities
  - Non-Expenditure Transfer Authorization (SF-1151)
  - FMS-issued Transaction by Account ID reports
  - ASAP disbursement and transfer request files and reports
- Reconciliations from the TFS-6653 Undisbursed Appropriation Account Ledgers to the trust fund trial balance reports
- Trial balance reports
- Schedules of assets and liabilities and schedules of activity
- Federal Accounting Centralized Trial Balance System Adjusted Trial Balance Reports
- TFS-2108 Year-End Closing Statements

### ***Tests of Operating Effectiveness and Results of Testing***

- Inspected a selection of the key transaction records and reference files (as described above) and determined that the supporting documentation was complete.

Based on the tests of operating effectiveness and results of testing described above, the controls are operating with sufficient effectiveness to achieve this control objective.

## **Reporting**

### ***Control Objective 15***

Controls should provide reasonable assurance that reports provided to the Program Entities are accurate, prepared on a consistent basis, and fairly present the information they purport to display.

### ***Description of Controls***

#### **All Trust Funds, Except the Unemployment Trust Fund**

At the end of the monthly processing cycle, the trust fund managers print schedules of assets and liabilities, schedules of activity and trial balance reports for each trust fund. The trust fund manager provides these reports and trial balances to the reviewing trust fund manager. The reviewing trust fund manager reviews the reports and trial balances for inconsistencies and obvious errors and approves the reports and trial balances. After approval, the trust fund manager downloads the trial balances, schedules of assets and liabilities, and schedules of activity into Portable Document Format (PDF) electronic files. TFMB sends the PDF electronic reports to the Program Entities by electronic mail. Using a software entitled SourceSafe, TFMB also downloads the trial balances, schedules of assets and liabilities, and schedules of activity into read-only electronic reports that TFMB posts to Treasury's website.

#### **Unemployment Trust Fund**

At the end of the monthly processing cycle, the trust fund manager downloads the trust fund activity and balances into an electronic file. TFMB sends the electronic file to the program agency by electronic mail. TFMB also creates HTML formatted electronic files containing the individual UTF account statements, transaction statements, and Federal activity reports (EUCA and FECA activity). The HTML reports are reviewed and then posted to Treasury's web site.

#### **All Trust Funds**

The trust fund activity processed by TFMB is also reported in FACTS. FACTS is used to consolidate all Federal financial reporting at the agency level for the purposes of generating a set of annual consolidated financial statement for the Federal Government as a whole. FACTS I includes only the non-budgetary accounts and FACTS II reports both the non-budgetary accounts and the budgetary accounts.

The trust fund manager provides the trial balance to a reviewing trust fund manager. The reviewing trust fund manager enters the account balances into FACTS II, prints the FACTS II Adjusted Trial Balance Report, and provides the FACTS II Adjusted Trial Balance Report to the trust fund manager. The trust fund manager compares the FACTS II Adjusted Trial Balance Report to the trial balance report from the Invest One accounting system and works with the reviewing trust fund manager to resolve any differences. In addition, the trust fund manager and reviewing trust fund manager compare the TFS-2108 Year-End Closing Statement to the trial balance report from the Invest One accounting system at the end of the year. The Program

Entities are responsible for entering the non-budgetary information into FACTS I using the reports they receive from TFMB.

***Program Entities' Control Considerations***

- Program Entities should review the monthly trust fund financial reports to ensure that transactions are recorded accurately.
- Program Entities should review their UTF account statements, transaction statements, and Federal activity reports to ensure that transactions are recorded accurately.
- Program Entities should ensure that transactions are recorded accurately into FACTS.

***Tests of Operating Effectiveness and Results of Testing***

- Inquired of the trust fund managers and reviewing trust fund managers as to the reporting processes and determined that they performed the procedures in accordance with the SOP manuals.
- Inspected a selection of trust fund reports, trial balances, electronic files, and on-line reports and determined that the reports were consistently prepared, complete, and accurate.
- Compared a selection of the FACTS II Adjusted Trial Balance Reports to the trial balance reports from the Invest One accounting system and determined that the reports were in agreement.
- Compared the TFS-2108 reports to the trial balance reports from the Invest One accounting system and determined that the reports were in agreement.

Based on the tests of operating effectiveness and results of testing described above, the controls are operating with sufficient effectiveness to achieve this control objective.

**Unemployment Trust Fund State Borrowing Program**

***Control Objective 16***

Controls should provide reasonable assurance that state borrowing transactions are authorized, processed, and recorded accurately and in the proper period.

***Description of Controls***

Pursuant to Title XII of the Social Security Act, certain Program Entities may borrow funds from the Federal Unemployment Account (FUA) when they have exhausted all of their available funding in their account. The following summarizes the related borrowing, repayment, and interest processes.



### Borrowing Activity

The U.S. Department of Labor (DOL) authorizes and coordinates the amounts that certain Program Entities may borrow. Each quarter, DOL sends an authorization letter to TFMB indicating the amount that the program entity may borrow. During fiscal year 2002, only one Program Entity was authorized to borrow. The trust fund manager enters the amount a state is authorized to borrow in the ASAP system. The reviewing trust fund manager compares the amount recorded in the ASAP system to the authorized amount for accuracy.

Each day, program entities determine the amount they want to borrow by reviewing their account in the ASAP system. Program Entities must enter their borrowing requests into the ASAP system by 6:00 pm.

During the morning of the next business day, the ASAP system transmits a file to the Invest One accounting system that contains all of the borrowing transactions. The trust fund manager accesses the Invest One accounting system and reviews the pending borrowing file. The trust fund manager prints a report from the Invest One accounting system that summarizes the pending borrowing requests and compares this report to the ASAP transaction reports.

After the trust fund manager verifies and reconciles these reports, the trust fund manager posts the transactions to the Program Entities' accounts within the Invest One accounting system and provides the reports to the reviewing trust fund manager. The reviewing trust fund manager reviews and approves the reports. Any differences are investigated and resolved.

### Repayment Activity

As discussed in control objective 9 above, the Program Entities deposit unemployment tax receipts into their UTF accounts. Each day, TFMB sweeps the accounts of the borrowing Program Entities and transfers any available funds from the Program Entities' accounts to the federal account from which they were borrowed. This serves to maintain a zero balance in the Program Entity accounts to ensure that a Program Entity in borrowing status does not earn any daily income when it is allocated. The trust fund manager reviews the account to ensure receipts are applied as repayments.

### Interest Terms

If a Program Entity has an outstanding loan balance at the end of the fiscal year, the Program Entity is liable to pay interest on the funds it borrowed during the fiscal year. The Invest One accounting system calculates and records interest based on the borrowings and calendar year end average investment interest earnings rate. The trust fund manager reviews the borrowing Program Entity account balances at year-end to ensure that interest is appropriately calculated and recorded by the Invest One accounting system for any state still in borrowing status. There were no outstanding loan balances as of September 30, 2002.

### ***Program Entities' Control Considerations***

- Program Entities should ensure that the systems they use to support on-line access to the Automated Standard Application for Payments System (ASAP) are approved, tested, and properly monitored.
- Program Entities should ensure that access to the ASAP system is restricted to properly authorized individuals.
- Program Entities should ensure that borrowing requests are accurately entered into the ASAP system.
- Program Entities should review the reports provided by TFMB to ensure that borrowing, interest, and repayment transactions are recorded accurately.

### ***Tests of Operating Effectiveness and Results of Testing***

- Inspected the authorization letter from DOL for the Program Entity authorized to borrow and determined that the borrowing was appropriately authorized and recorded in ASAP.
- Inspected a selection of ASAP transaction reports and Invest One reports and determined that the borrowings were accurately received in the Invest One accounting system.
- Inspected a selection of Invest One reports and determined that the borrowings did not exceed the DOL authorized limits.
- Inspected a selection of Invest One reports for the Program Entity authorized to borrow and determined that the Program Entity did not earn any daily income.
- Inspected the Invest One report for the Program Entity authorized to borrow and determined that interest was properly excluded as there was not a loan balance at the end of the fiscal year.

Based on the tests of operating effectiveness and results of testing described above, the controls are operating with sufficient effectiveness to achieve this control objective.

#### **IV. OTHER INFORMATION PROVIDED BY BPD**

## **Contingency Planning**

### System Back Up

The Invest One accounting system has a contingency plan managed by FIST. There is a formal DFI Business Contingency Plan (DFI BCP), which was last tested on April 24, 2002. All daily Invest One functions were completed at the contingency site with the support of TFMB employees. The focus of the tests was to complete daily processing requirements of the Invest One accounting system. The test was considered successful by management.

OIT uses the Tape Management System (TMS) from IBM to perform backups. OIT performs two backups of the Invest One accounting system each night, the first before running the nightly batch jobs and the second after completion. OIT retains the first backup tape for two weeks and retains the second back up tape for two months. OIT stores the tapes in the production tape library until they are rotated offsite. Short-term storage of Invest One tapes is maintained at the Park Center site facility in Parkersburg, approximately five miles from the Hintgen Building. Long-term storage of tapes is at the Boyers Mine Facility in Pennsylvania.

If a backup tape needs to be restored, the request will be made from the FIST management level or above. OIT will then load the backup tape.

### Continuity of Operations

A fire alarm and sprinkler system that is managed, maintained, and tested by the facilities management department at BPD protects the Hintgen Building and the main building. Alarms are active 24 hours a day, 7 days a week, and are tied-in to the local fire department over phone lines for spontaneous notification. Sprinkler heads are located in the ceiling of each room of the buildings. This is a "wet pipe" (always charged with water) system with individual heads that discharge water.

In the event the main building, where the Invest One accounting system is run, becomes inoperable, mainframe operations would be relocated to the Park Center facility in accordance with the OIT data center recovery plan. This facility employs a "warm site" strategy for recovery of mainframe operations. OIT has contracted with El Camino Disaster Recovery Services to provide mainframe equipment for this site. The DFI BCP calls for recovery of the mainframe operations and critical applications within 13 to 30 days. The Invest One accounting system has been classified as a critical application.

As part of the DFI BCP, should the Hintgen Building become unavailable, personnel will relocate to the "Warehouse" on 19<sup>th</sup> street to reestablish their daily operations. BPD will revert to manual procedures until the mainframe and Invest One accounting system are fully recovered at the Park Center facility.

**V. INDEPENDENT AUDITORS' REPORT ON  
COMPLIANCE WITH LAWS AND REGULATIONS**



2001 M Street, NW  
Washington, DC 20036

Inspector General, U.S. Department of the Treasury  
Commissioner, Bureau of the Public Debt and the  
Assistant Commissioner, Office of Public Debt Accounting:

We have examined the accompanying description of the general computer and trust fund management processing controls related to the Trust Fund Management Branch (TFMB) of the Bureau of the Public Debt (BPD) as of September 30, 2002, and have issued our report thereon dated November 1, 2002. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants, and applicable *Government Auditing Standards*, issued by the Comptroller General of the United States.

Our examination included procedures to obtain reasonable assurance about whether (1) the description of controls included in Section II presents fairly, in all material respects, the aspects of BPD's controls that may be relevant to Program Entities' internal control as it relates to an audit of financial statements, (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily, and the Program Entities applied the controls contemplated in the design of the controls, and (3) such controls had been placed in operation as of September 30, 2002. The control objectives were specified by BPD. Our examination included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

Compliance with laws and regulations applicable to TFMB of BPD is the responsibility of BPD management. As part of obtaining reasonable assurance about whether control structure policies and procedures tested were operating with sufficient effectiveness to achieve the related control objectives during the period from October 1, 2001, to September 30, 2002, we performed tests of BPD's compliance with certain provisions of applicable laws and regulations directly and materially affecting the general computer and trust fund management processing controls. We limited our tests of compliance to these provisions and we did not test compliance with all applicable laws and regulations. The objective of our examination was not, however, to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

This report is intended solely for the information and use of the management of BPD, Program Entities and their independent auditors, U.S. Department of the Treasury Office of Inspector General, Office of Management and Budget, General Accounting Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 1, 2002



**EXHIBIT A**  
**Division of Federal Investments Organizational Chart**

